



Crown Castle International Corporation (CCI)

Updated October 21st, 2023, by Josh Arnold

Key Metrics

Current Price:	\$86	5 Year CAGR Estimate:	12.2%	Market Cap:	\$37 B
Fair Value Price:	\$133	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	12/14/23
% Fair Value:	65%	5 Year Valuation Multiple Estimate:	9.1%	Dividend Payment Date:	12/29/23
Dividend Yield:	7.3%	5 Year Price Target	\$120	Years Of Dividend Growth:	8
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

Overview & Current Events

Crown Castle International was founded in 1994 and has since become a powerhouse in the data infrastructure business. It is structured as a real estate investment trust, or REIT, and operates cell phone towers with small cells where larger towers are not feasible, and fiber connections for data transmission. The trust owns, operates and leases more than 40,000 cell towers and 80,000 route miles of fiber across every major US market, helping it to support data infrastructure across the country. Crown Castle is headquartered in Texas, produces annual revenue of about \$7 billion, and trades with a \$37 billion market capitalization.

Crown Castle posted third quarter earnings on October 18th, 2023 and results were worse than expected on both the top and bottom lines. The REIT posted funds-from-operations of \$1.77, which missed estimates by three cents. Revenue was down about 5% year-over-year to \$1.67 billion, which missed estimates by \$20 million. Guidance for revenue and FFO were also below consensus once again, as weakness continues for Crown Castle.

Site rental revenue was \$1.58 billion, down from \$1.73 billion in Q2, but flat to the year-ago period. Adjusted EBITDA came to \$1.05 billion, which was slightly short of the consensus. It was also down from the year-ago period, and sharply down from \$1.19 billion in Q2.

Guidance was reduced slightly, and we've cut our estimate again, this time to \$7.40 per share. The REIT cut revenue guidance as well as EBITDA, and we continue to see weakness on the horizon as Crown Castle struggles to generate both revenue and margins.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
CF/S	\$2.59	\$4.07	\$4.30	\$4.30	\$4.15	\$5.27	\$5.69	\$6.12	\$6.39	\$7.75	\$7.40	\$6.69
DPS	---	\$1.87	\$3.35	\$3.61	\$3.90	\$4.28	\$4.58	\$4.93	\$5.46	\$5.98	\$6.26	\$6.58
Shares¹	334	334	334	361	406	417	418	433	432	433	433	433

Crown Castle's cash flow per share – defined as the sum of earnings plus depreciation, minus preferred dividends – has shown robust levels of growth over the past decade. The trust has managed to grow per-share cash flow at more than 11% annually on average for the past decade. We don't see that sort of growth as feasible for the long-term, and we've moved our growth estimate from 0% to -2% on weaker margins.

We believe revenue growth is intact, but the company has proven incapable of translating this into margin growth. The trust's robust cash flow generation will afford it the opportunity to continue to do this over time, as well as pay the ample dividend. Crown Castle's penchant for buying growth will help expand the top line, in addition to organic revenue gains. We think the future is still bright as consumers demand more and more access to data over time, and Crown Castle is poised to deliver, but short-term challenges remain. In addition, its portfolio is centered in metropolitan areas with favorable long-term demand outlooks, so the trust is well positioned in a variety of ways. We see this as being somewhat offset by stubbornly high tenant non-renewals, as well as debt servicing costs. However, the trust's leverage to the 5G rollout puts it in a very strong position for the years to come given high barriers to entry.

¹ Share count in millions

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We see the dividend increasing to a payout of \$6.58 per share in five years' time. We note Crown Castle's payout ratio is currently elevated, and that could get worse if earnings don't grow, as forecasted.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/CF	28.4	19.3	20.1	20.2	26.7	20.6	22.9	26.0	28.3	17.5	11.6	18.0
Avg. Yld.	---	2.4%	4.0%	4.0%	3.9%	3.9%	3.5%	3.1%	3.0%	4.4%	7.3%	5.5%

Crown Castle's cash flow multiple has varied quite widely in the past decade. Its long-term average is 21 and we see the stock as undervalued today given shares trade for 11.6 times this year's cash flow estimate. Crown Castle's very high-quality earnings and decent growth outlook mean that its yield is likely to be lower than other REITs, and we expect the yield to remain elevated for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	46%	78%	84%	94%	81%	80%	81%	85%	77%	85%	98%

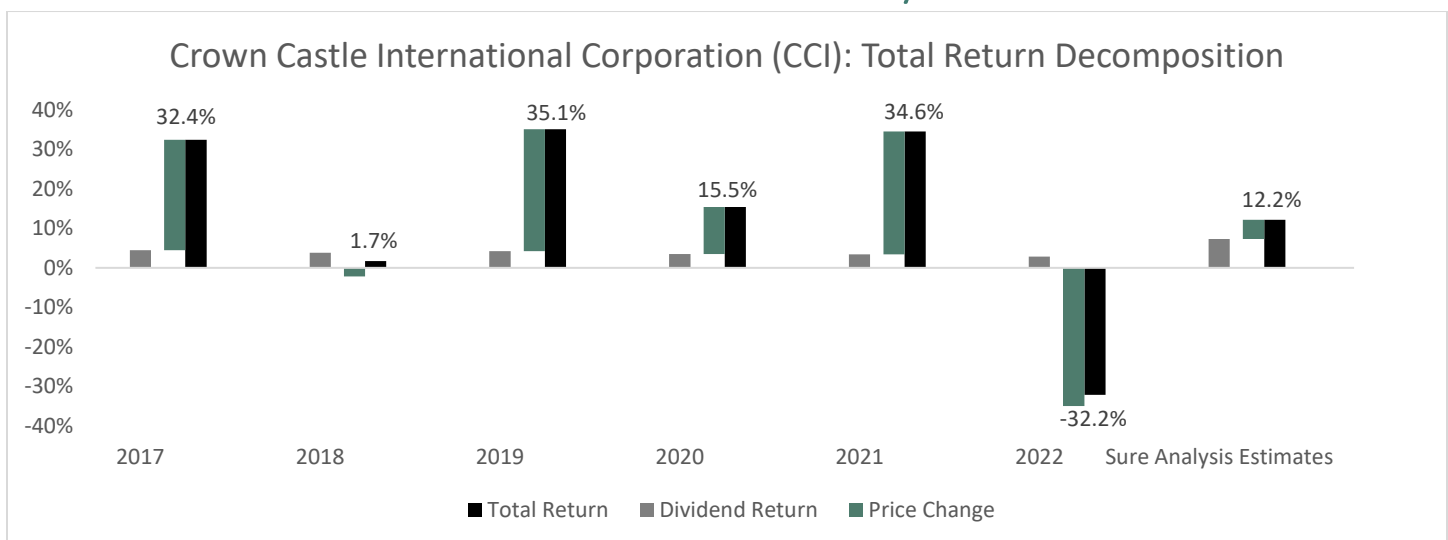
The trust continues to pay most of its earnings out as dividends, as it is required to do as a REIT. The current payout ratio is 85% of FFO. We forecast continued relatively modest increases in the payout, around that of FFO growth, and we believe the payout is safe for now, but fundamentals need to improve to keep increases coming. Crown Castle has stable and growing cash flows that allow it to invest in the business and return cash to shareholders.

Crown Castle should be quite resilient to recessions given its place in what amounts to a utility in the burgeoning telecommunications industry. The trust performed very well during the Great Recession, and we see no reason for investors to be alarmed should another recession strike. Its competitive advantage is somewhat weak given it provides a service with a relatively low barrier to entry, but Crown Castle's scale is an advantage.

Final Thoughts & Recommendation

We now rate Crown Castle a buy, given the recent down move in the stock, and despite no earnings growth being forecast. We see the stock as substantially undervalued, and total return prospects are attractive at 12.2% following Q3 results, with 7.3% coming from the yield, -2% projected growth, and a 9.1% tailwind from the valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2866	3539	3664	3921	4356	5423	5,773	5,840	6,340	6,986
Gross Profit	1875	2232	2342	2480	2792	3576	3,782	3,871	4,347	4,918
Gross Margin	65.4%	63.1%	63.9%	63.2%	64.1%	65.9%	65.5%	66.3%	68.5%	70.4%
SG&A Exp.	214	257	311	371	426	563	614	678	680	750
D&A Exp.	741	986	1036	1109	1242	1528	1,574	1,608	1,644	1,707
Operating Profit	920	989	995	1000	1124	1485	1,594	1,947	2,023	2,461
Operating Margin	32.1%	27.9%	27.2%	25.5%	25.8%	27.4%	27.6%	33.3%	31.9%	35.2%
Net Profit	90	391	1521	357	445	671	863	1,056	1,096	1,675
Net Margin	3.1%	11.0%	41.5%	9.1%	10.2%	12.4%	14.9%	18.1%	17.3%	24.0%
Free Cash Flow	703	908	885	913	815	761	641	1,431	1,498	1,568
Income Tax	191	-11	-51	17	26	19	21	20	21	16

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20,595	21,143	21,937	22,675	32,229	32,351	32,621	38,768	39,040	38,921
Cash & Equivalents	223	151	179	568	314	206	323	232	292	156
Acc. Receivable	250	313	313	374	398	455	471	431	543	720
Goodwill & Int.	8,974	8,878	9,293	9,408	15,983	15,804	15,694	14,511	14,124	13,681
Total Liabilities	13,654	14,406	14,848	15,118	19,890	20,222	20,775	29,307	30,782	31,472
Accounts Payable	145	162	160	189	249	272	302	230	246	236
Long-Term Debt	11,595	11,921	12,150	12,171	16,159	15,956	16,424	19,280	20,629	21,729
Total Equity	6,927	6,716	7,089	7,557	12,339	12,129	11,846	9,461	8,258	7,449
LTD/E Ratio	1.67	1.77	1.71	1.61	1.31	1.32	1.39	2.04	2.50	2.9

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.5%	1.9%	7.1%	1.6%	1.3%	1.9%	2.6%	3.0%	2.8%	4.3%
Return on Equity	1.8%	5.7%	22.0%	4.9%	3.7%	5.1%	7.2%	9.9%	12.4%	21.3%
ROIC	0.5%	2.1%	8.0%	1.8%	1.5%	2.2%	3.1%	3.7%	3.8%	5.8%
Shares Out.	334	334	334	361	406	417	418	433	434	434
Revenue/Share	9.58	10.62	10.97	11.50	11.11	12.94	13.79	13.74	14.61	16.10
FCF/Share	2.35	2.72	2.65	2.68	2.13	1.83	1.53	3.37	3.45	3.61

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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